

**U.S. dollar's position as a global reserve currency is questioned**

Although the U.S. accounts for one quarter of global economic activity, around half of all cross-border loans and international debt securities are denominated in U.S. dollars.

The global share of U.S. dollar-denominated exchange reserves – U.S. Treasury securities, U.S. corporate bonds, U.S. mortgage-backed securities, etc. held by foreign central banks – fell to 60.5% in the third quarter of 2020, according to the International Monetary Fund's Currency Composition of Official Foreign Exchange Reserves (COFER) data. This is the lowest level held since 1995. During the past six years, the dollar's share has been dropping at a rate of about 1% per year. Is the U.S. currency losing its favour among the international community?

The decline in the dollar's share began about 20 years ago when the Euro assumed the place of predecessor currencies. That 20-year decline of 10% is a shadow of the near-40% dive in the dollar's share from 1977 (85%)



to 1991 (46%), which was followed by a 25% surge up to 2000.

Why does the U.S. dollar continue to be the currency of choice for global reserves? Deep and liquid U.S. dollar markets are attractive to non-U.S. entities because they provide borrowers and lenders access to a large set of counterparties, according to the IMF. Further, the IMF clarifies that while the dollar's funding relative to the size of the global economy is currently well below its peak reached a decade ago, its share in international borrowing has risen again to reach levels last seen in 2000, saying: "it is clearly the dominant international funding currency." Abdication is not on the horizon.

**Fiscal snapshot**

**Bank of Canada**

	Bank Rate	Bank Prime Lending Rate
December 2020	0.50	2.45
November 2020	0.50	2.45
December 2019	0.50	3.95

**Government of Canada benchmark bond yields**

	5-Year	10-Year	Long
December 2020	0.39	0.67	1.21
November 2020	0.43	0.67	1.17
December 2019	1.68	1.70	1.76

**Indicative commercial mortgage spreads\* Over Government of Canada bond yields**

Conventional	5-Year	10-Year
December 2020	1.50 - 2.10	1.70 - 2.20
December 2019	1.85 - 2.25	1.90 - 2.40
Insured	5-Year	10-Year
December 2020	0.90 - 1.25	1.05 - 1.35
December 2019	0.95 - 1.20	0.95 - 1.20

\*Spreads are indicative of high quality real estate in major Canadian markets. Source(s): Bank of Canada

# Highlighted transaction

<b>Asset type</b>	Mixed use retail/office development
<b>Location</b>	Major Canadian city
<b>Facility details</b>	A first charge facility was arranged to assist with acquisition in the amount of \$18,750,000 for a 7-year term, amortized for 25 years. The transaction was structured with limited recourse.

## Intelligent debt financing solutions

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