June 11, 2026

The Good, the Bad and the Ugly

The dollar is not being replaced. It is being degraded — by its adversaries, and by its own operator. Here is the honest accounting.

Ships transiting the Strait of Hormuz are paying in Chinese yuan. That single fact — confirmed by industry sources, reported by the Financial Times, noted with alarm by Deutsche Bank analysts — is more consequential than any military development in the conflict. Iran is not just blocking oil. It is running an experiment in financial architecture, using a chokepoint carrying roughly a fifth of the world's daily oil supply to stress-test a payment system Washington cannot reach. The system passed.

The dollar is not being replaced. The yuan cannot replace it — the structural reasons for that are documented below and they are not changing. But a currency's dominance does not require a replacement to erode. It requires only that the three systems sustaining it stop pulling in the same direction.

Two of those systems are wobbling. One is being actively dismantled by Washington itself. This is what the erosion of dollar dominance looks like from the inside: not a collapse, but a compounding institutional failure playing out in real time. The honest accounting has three parts.

THE GOOD

How Currency Price Is Actually Set

A currency is not valued the way a painting is valued — by what someone thinks it is worth. It is priced by the intersection of three systems operating simultaneously: markets, central banks, and geopolitical power. Remove any one of them and the currency collapses. The dollar has all three. The yuan has one and a half. That gap is the most important structural fact in global finance.

Markets are the visible layer: interest rate differentials, capital flows, trade balances, policy expectations. When the Fed raised rates aggressively in 2022 and 2023, the dollar strengthened roughly 15 percent against major currencies not because America was suddenly more productive but because the yield differential made dollar assets more attractive.

Central banks set the gravity. A central bank trusted to control inflation anchors expectations, which anchors the currency. Turkey's lira lost 80 percent of its value against the dollar between 2018 and 2023 not because Turkish markets collapsed but because the central bank's credibility collapsed first. The gravity field failed. Everything else followed.

Geopolitical power is the hidden layer most analysts ignore. Reserve currency status creates structural baseline demand: every central bank that holds dollars as reserves is a permanent buyer regardless of yield. Oil priced in dollars creates demand from every energy-importing economy on earth. Sanctions power gives the dollar coercive value that no other currency possesses — access to dollar clearing is not just a financial convenience; it is a condition of participating in the global economy.

Why the Yuan Cannot Replace It

China refuses to allow free capital movement, independent monetary policy, or transparent institutions — and this is not stubbornness. It is structural necessity. China's total debt has reached 312 percent of GDP, sustained by a financial system in which state banks absorb losses that would destroy any privately disciplined institution. Capital account opening would expose that system to external pricing discipline it cannot survive. The yuan cannot become a genuine reserve currency without triggering the domestic financial collapse Beijing has spent twenty years preventing.

The dollar's share of global reserves has fallen from 73 percent in 2000 to 57 percent today. That decline is real and consequential. It is also not a rout. The dollar still dominates 88 percent of global foreign exchange transactions. No alternative comes close. The Good is genuine and durable. The question is what Washington is doing with it.

THE BAD

The Warsh Contradiction

Kevin Warsh spent five years on the Federal Reserve Board warning about inflation even during the depths of the 2008 financial crisis. He called for higher rates when almost nobody else did. Then, within days of the Senate advancing his nomination to Fed chair on a 49-44 cloture vote — the most partisan in Fed chair history — he told Fox News he would cut rates by 100 basis points. "That's not news. That's been my view for quite some time." It was news to everyone who watched the confirmation hearing.

The morning after that signal, CPI printed at 3.8 percent annually — the highest in nearly three years. The 10-year Treasury rose to 4.455 percent. He wants to cut, inflation is rising, and the market is tightening at the long end regardless of what happens at the short end. The Fed chair controls the federal funds rate. The bond market controls the yield curve. When they disagree, the bond market wins. It always has.

The Warsh contradiction did not create the dollar's structural vulnerability. But it is the most visible symptom of the institutional failure that makes the vulnerability unfixable without deliberate intervention: a central bank whose credibility signal has been introduced to noise at the precise moment that signal matters most.

The Number Washington Is Reading Wrong

Before examining the exit ramp, a foundational error in Washington's assessment of the countries building it needs correcting. The standard metric is nominal GDP per capita. By that measure, Russia at $11,000 looks economically marginal. China at $13,100 looks like a climbing middle-income country. India barely registers. These figures feed a persistent underestimation of how much real economic weight exists on the other side of the dollar's coercive architecture.

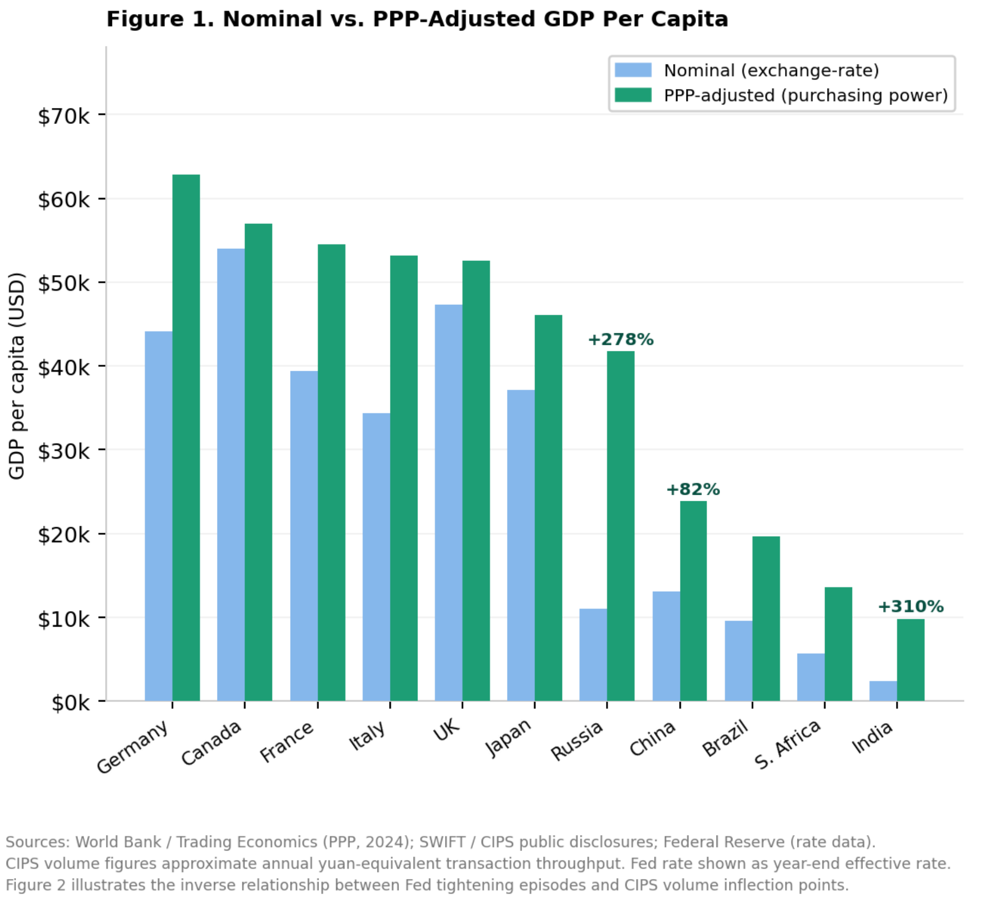

Figure 1: PPP-adjusted GDP per capita is 2-4x nominal across key countries. Russia +278%, China +82%, India +310%. Washington sanctions models run on the nominal ledger. Source: World Bank / Trading Economics (PPP, 2024).

The corrections are not marginal. Russia's PPP-adjusted GDP per capita is approximately $41,700 — nearly four times its nominal figure. China's PPP figure is roughly double. India's real purchasing power is more than four times the exchange-rate number. Sanctions that crater the ruble produce alarming nominal figures. They produce considerably less alarming real ones. Washington targeted the nominal layer. The real layer absorbed far more than expected. Beijing is funding a de-dollarization infrastructure whose domestic cost is cheap. Washington is reading the wrong ledger.

The Saudi Calculation Washington Did Not Make

Saudi Arabia, managing a $450 billion dollar reserve position, is about to absorb a 100 basis point yield reduction on that position — approximately $4.5 billion in annual income reduction per 25 basis points, roughly $18 billion annually on the full signal, before factoring in dollar depreciation effects on the principal. Washington calls the net result monetary policy. Riyadh calls it a tax.

The Mar-a-Lago Accord's managed dollar depreciation, already approximately 9 percent on a trade-weighted basis, is running simultaneously. A weaker dollar plus lower rates plus a debt trajectory pointing toward 120 percent of GDP by 2036 is a comprehensive argument for reserve diversification that Washington is making on Beijing's behalf.

The Missing Institution

There is a body that should exist but does not: an institution accountable for the global consequences of US monetary decisions. The Fed's mandate is domestic. Treasury's sanctions office enforces dollar access. The NSC coordinates foreign policy. Nobody owns the intersection. The secondary sanctions of December 2023, the Fed rate path that raised the cost of dollar-denominated debt across the Global South, and the dollar depreciation embedded in the Mar-a-Lago Accord were three institutional decisions made in isolation with no one accountable for their cumulative geopolitical effect.

THE UGLY

The Exit Ramp: Four Components, One Direction

CIPS — China's Cross-Border Interbank Payment System — recorded a single-day transaction volume exceeding 1.22 trillion yuan in March 2026. The critical accelerant was not Chinese ambition but American action: Washington's December 2023 executive order on secondary sanctions caused banks in the UAE, Turkey, and Central Asia to migrate settlement to yuan overnight. Every time Washington uses the dollar as a weapon, it recruits another institution to the alternative.

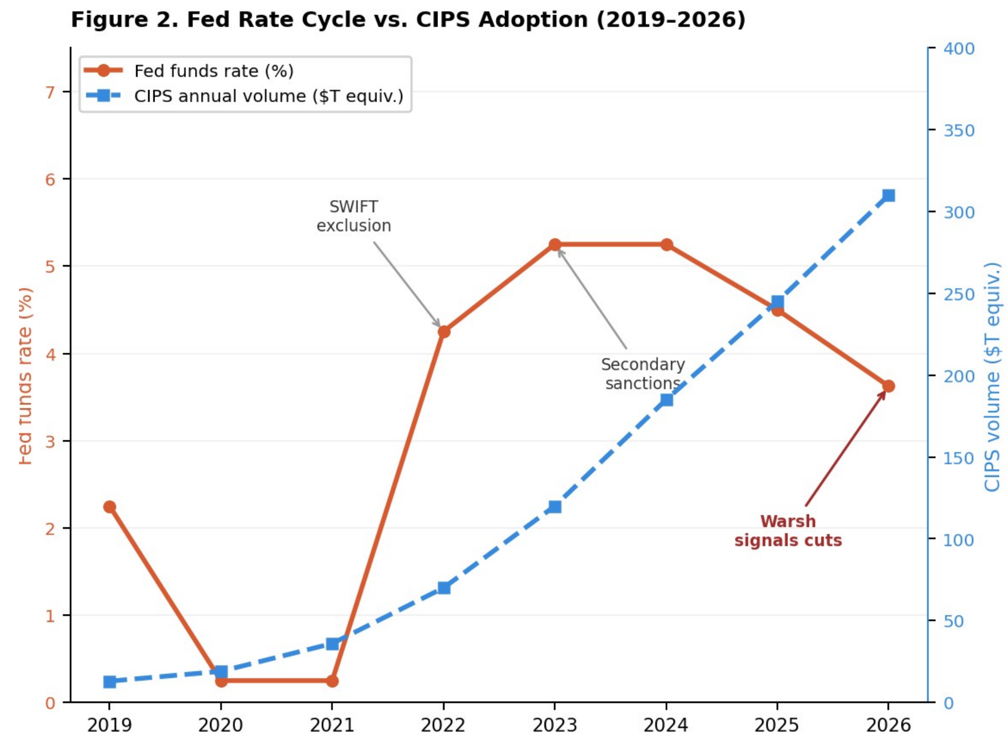

Figure 2: Fed rate cycle vs. CIPS adoption (2019–2026). Each sanctions episode produced a step-change in CIPS volume. Warsh's rate-cut signal in 2026 creates a recruitment pause — not a reversal. Source: CIPS public disclosures; Federal Reserve.

The digital yuan crossed 2.25 billion wallets and, as of January 1, 2026, began paying interest — transforming it from digital cash into digital deposit money that bypasses SWIFT entirely. Washington has no visibility into those transactions. It cannot freeze them.

The petroyuan is no longer theoretical. Saudi Arabia now settles 45 percent of its crude oil sales to China in yuan, joined the mBridge platform which processed over $55 billion in transactions by November 2025, and the 50-year petrodollar arrangement was allowed to lapse without formal renewal in June 2024. Partial pricing in yuan does not replace the dollar. It ends the exclusivity. Once exclusivity ends, the structural demand that sustains reserve status begins to erode.

The BRICS bloc — representing 37 percent of global GDP — launched a digital settlement instrument in November 2025 pegged 40 percent to gold. The pattern across all four components is identical: parallel infrastructure, built incrementally, stress-tested by each successive sanctions episode, waiting.

The Recruitment Pause Argument

When the Fed eases, the urgency to de-dollarize declines. But CIPS doesn't shrink. mBridge doesn't go offline. The alternative rails, once built, remain available. The 100 basis point cut Warsh is signaling reduces urgency without reducing capacity. The next tightening cycle will find a more developed, more trusted alternative architecture than any previous tightening cycle encountered. Every easing cycle is a recruitment pause. Every tightening cycle is a recruitment drive. The trend runs in one direction regardless.

What Deterrence Actually Requires

The dollar’s deterrence value is not gone. It is eroding on a known trajectory toward a known outcome with a known cause. Reversing it requires treating reserve currency status as a strategic asset rather than a renewable resource; building domestic supply-chain independence that does not depend on dollar coercion to enforce; and creating an institutional mechanism that accounts for the global consequences of Fed rate decisions as a geopolitical variable. The market layer is functional. The monetary layer is wobbling. The geopolitical layer is being actively degraded. Supply and demand is where the conversation starts. The institutional failure is where it actually lives.

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