Foreign Exchange Market and US Dollar
The single most astonishing fact about foreign exchange is not the high volume of transactions, as incredible as that growth has been. Nor is it the volatility of currency rates, as wild as the markets are these days. Instead, it's the extent to which the market remains dollar-centric.

Example: Consider this: When a South Korean wine wholesaler wants to import Chilean cabernet, the Korean importer buys *U.S. dollars*, not pesos, with which to pay the Chilean exporter. Indeed, the dollar is virtually the exclusive vehicle for foreign-exchange transactions between Chile and Korea, despite the fact that less than 20% of the merchandise trade of both countries is with the U.S.
Chile and Korea are hardly an anomaly: Fully 85% of foreign-exchange transactions world-wide are trades of other currencies for dollars. What's more, what is true of foreign-exchange transactions is true of other international business. The Organization of Petroleum Exporting Countries sets the price of oil in dollars. The dollar is the currency of denomination of half of all international debt securities. More than 60% of the foreign reserves of central banks and governments are in dollars.

The greenback, in other words, is not just America's currency. It's the world's.
why the dollar became so dominant in the first place?

First, its allure reflects the singular depth of markets in dollar-denominated debt securities. The sheer scale of those markets allows dealers to offer low bid-ask spreads. The availability of derivative instruments with which to hedge dollar exchange-rate risk is unsurpassed. This makes the dollar the most convenient currency in which to do business for corporations, central banks and governments alike.
Second, there is the fact that the dollar is the world's safe haven. In crises, investors instinctively flock to it, as they did following the 2008 failure of Lehman Brothers. This tendency reflects the exceptional liquidity of markets in dollar instruments, liquidity being the most precious of all commodities in a crisis. It is a product of the fact that U.S. Treasury securities, the single most important asset bought and sold by international investors, have long had a reputation for stability.
Regarding US banks making profit out of the foreign exchange transactions:

- Firstly, the bid-ask spread provides banks with their incomes from dealing in foreign exchange.
- Secondly, spreads may seem small but can have a substantial effect on yields of huge investments.
- So large number of foreign exchange transactions through US banks are obviously going to get profits and only profits for US banks.