

Policy Note





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Expansionary fiscal policy, trade wars and rising geopolitical uncertainty are likely to be inflationary, placing upward pressure on the US Dollar that would likely outweigh, on a net basis, potential attempts to intervene and weaken the Dollar – which itself, would be difficult to execute.

Policy implications for the US dollar

| | Marginal inflation impact |  |  |
|---|---------------------------|--|--|
| | | <div><div></div><div></div><div></div></div> | <div><div></div><div></div><div></div></div> |
| Formally targeting weaker USD | ↑ | ● | |
| Less Fed independence | ↑ | ● | |
| Neutral Fed policy | ▬ | | ● |
| Expansionary fiscal policy | ↑ | ● | ● |
| Higher corp & individual taxes | ↓ | | ● |
| Restructuring / challenging post WWII geopolitical institutional architecture | ↑ | ● | |
| More protectionism | ↑ | ● | ● |
| More regulation | ↓ | | ● |
| Less regulation | ↑ | ● | |
| Curbing immigration | ↑ | ● | |
| Net impact of the US dollar | | USD strength | USD neutral |

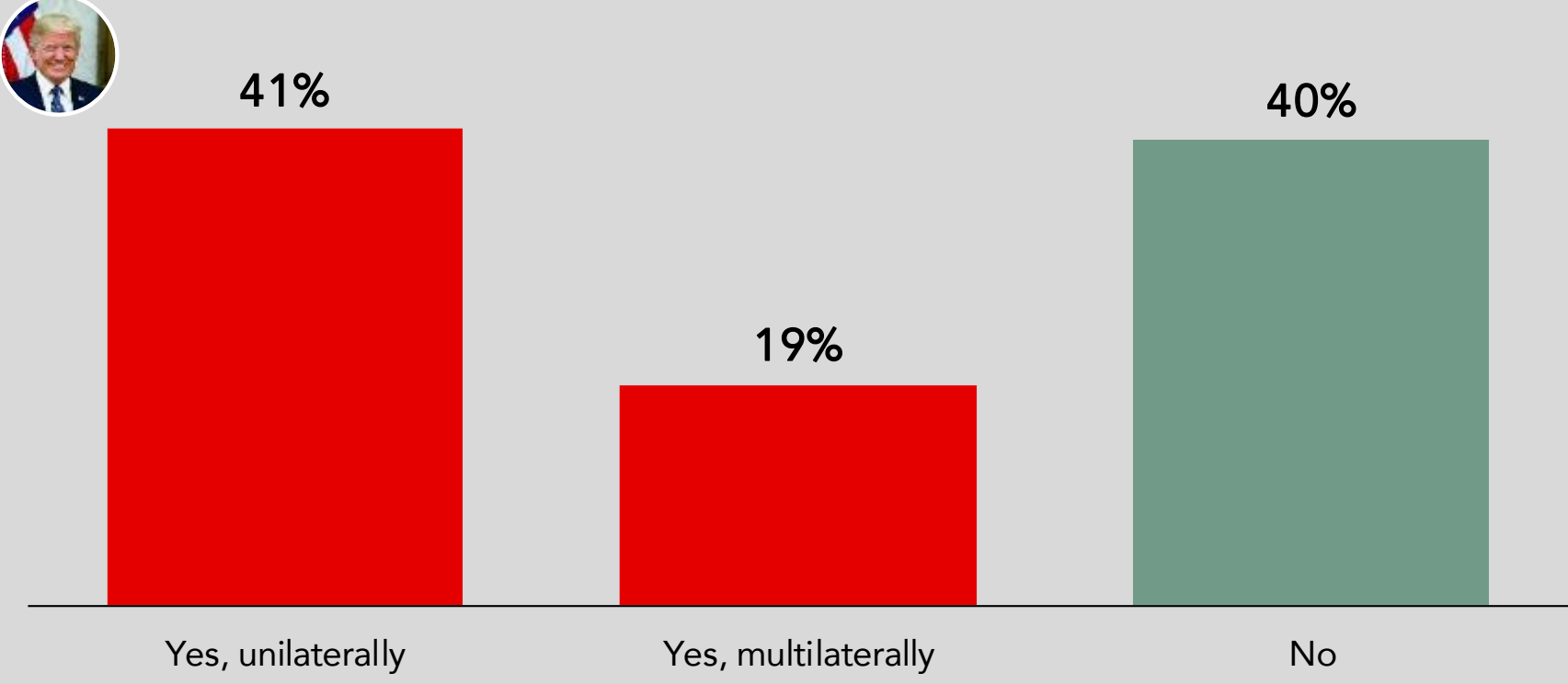
A “Republican Sweep” (White House, Senate, House) would likely be the most fiscally expansive, and USD strengthening, among US election scenarios.

Notable observations on post-election US dollar policy

- 1 Foreign central banks: Likely to depreciate their currencies vs. USD in response to tariffs
- 2 US economy: As in 2018-19, likely to be less impacted by “trade wars” than Europe/Japan/EM/China by virtue of being a more “closed economy” (exports only 11% of GDP)
- 3 Euro & Yen: More scope for depreciation in 2025 trade wars, vs. 2018-19 trade wars when policy rates were at 0% (or lower)
- 4 Risk-sensitive currencies: AUD, CAD, IDR, MXN and ZAR notably vulnerable, as in 2018-19
- 5 Other EM currencies: Notably vulnerable to potential 2025 trade wars, as they were in 2018-19
- 6 Regulatory activism: A more stringent regulatory regime under Harris (compared to Trump) may have a more muted impact on US Dollar given implementation headwinds post SCOTUS Chevron Ruling
- 7 Fiscal expansion: Would drive higher pace of capital flows into USD
- 8 USD intervention (devaluation): Very difficult to execute and likely to be outweighed by other policies
 - Verbal intervention: Limited impact
 - Coordinated intervention: Difficult to execute (legal, political, legislative)
 - Pressure on Fed: Pushback likely given inflationary forces
 - UST ESF purchases: Significant scalability, with political obstacles (Fed cooperation, Congressional borrowing authority)

According to a Bloomberg survey, the majority of respondents believe Donald Trump is more likely to intervene in an effort to weaken the dollar if he wins the election. Almost a fifth of respondents see a concentrated, multilateral effort as likely along with 41% of respondents who think the US would act unilaterally.

Bloomberg MLIV Pulse Survey: Would you expect another Trump administration to intervene in an attempt to weaken the dollar?



Source: MUFG CMS. Trump scenario if Republicans are controlling Congress. Bloomberg MLIV Pulse Survey. Survey of 480 respondents conducted July 22-26, 2024.

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“Macro stability isn’t everything, but without it, you have nothing.”