

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	Donald Trump	Kamala Harris
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.

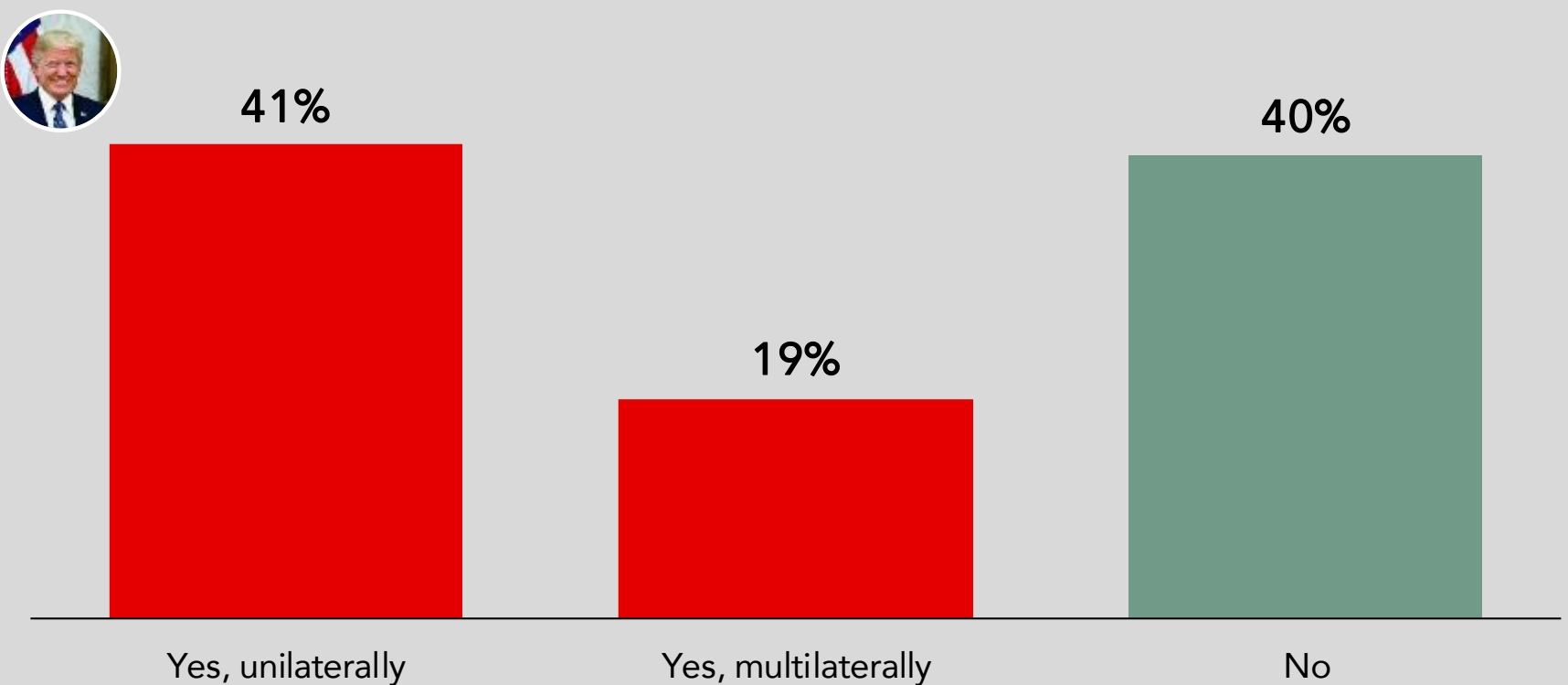
Notable observations on post-election US dollar policy

- Foreign central banks:** Likely to depreciate their currencies vs. USD in response to tariffs
- 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)
- Euro & Yen:** More scope for depreciation in 2025 trade wars, vs. 2018-19 trade wars when policy rates were at 0% (or lower)
- Risk-sensitive currencies:** AUD, CAD, IDR, MXN and ZAR notably vulnerable, as in 2018-19
- Other EM currencies:** Notably vulnerable to potential 2025 trade wars, as they were in 2018-19
- 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
- Fiscal expansion:** Would drive higher pace of capital flows into USD
- 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."