

**MUFG Americas Holding Corporation**

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## **Coronavirus May Spur Capital Flight from U.S. and Weaken Dollar, Says MUFG Americas Head of Trading**

*Depressed economic activity in the U.S. and abroad could encourage repatriation of assets*

**New York, NY (March 2, 2020)** – The continued worldwide spread of COVID-19 (the coronavirus disease) may weaken the U.S. dollar over the long run by impelling multinational corporates and foreign investors in the United States to repatriate money back to their home countries, said **Kuniyuki Hirai**, Managing Director and Head of Trading in the Americas for Mitsubishi UFJ Financial Group (MUFG).

Mr. Hirai delivered his remarks at an MUFG media roundtable last week to discuss the coronavirus's implications for the global economy and currency markets.

### **A potential exodus of capital**

According to Mr. Hirai, it is too early to predict the full economic consequences of the coronavirus, since no one yet knows when and how the virus's spread will be contained. However, he noted, "the coronavirus pressed the 'stop' button" by prompting corporates and financial institutions to reassess their investment allocations moving forward. Mr. Hirai added that if the number of infections within and outside China continues to rise and depress economic activity throughout the world, multinational corporates and foreign investors may repatriate capital in an effort to shore up their domestic economic activity. Large-scale repatriation could result in massive outflows of dollar-denominated money back to Asia and Europe—and weaken the dollar against those regions' currencies, he said.

"For countries that have current account surpluses, history tells us that people may bring their money back," Mr. Hirai pointed out, referring to past instances in which investors from countries with greater capital outflows than inflows—such as in the form of foreign direct investment and exports—tended to repatriate capital to stimulate their struggling economies at home. He cited Japanese corporates and



investors, as one example, who repatriated capital from the United States in the mid-1990s in the wake of Japan's asset bubble collapse and economic woes.

### **Additional factors affecting the dollar**

Mr. Hirai mentioned two additional factors that could drive down the dollar:

1. ***A withdrawal from U.S. stocks and dollar-denominated debt of emerging markets:*** Mr. Hirai underscored the sizable influx of foreign money into the United States during the decade-long bull run of its stock market since 2009—an influx that accelerated in 2019, during which the S&P 500 Index gained more than 30%. Furthermore, emerging markets have issued a significant amount of dollar-denominated debt throughout this period. A pause in, or retreat from, such investments could exert downward pressure on the dollar.
2. ***Lower U.S. interest rates:*** The negative economic effects of the coronavirus may lead the U.S. Federal Reserve to cut interest rates. Such a move would reduce the interest rate differential between the dollar and other foreign currencies, thereby lowering demand for the dollar and weakening its value.

### **The coronavirus effect on the currency market**

Mr. Hirai noted that, unlike equity markets, the foreign exchange market is presently unable to price in the potential economic repercussions of the coronavirus, because currency investors are not yet sure whether those effects will be temporary or structural.

He explained that investors are reluctant to bet on any which currency—or determine what would be the world's next safe haven currency to which they should flock—solely on the basis of stock-price behavior. “People aren't fully comfortable looking at the stock market and selling dollars, for example,” he said.

MUFG is the world's fifth-largest financial institution, with approximately \$2.9 trillion in total assets.<sup>1</sup>

### **About MUFG Americas Holdings Corporation**

The U.S. operations of Mitsubishi UFJ Financial Group, Inc. (MUFG), one of the world's leading financial groups, has total assets of \$343 billion at September 30, 2019. As part of that total, MUFG Americas Holdings Corporation (MUAH), a financial holding company, bank holding company and intermediate holding company, has total assets of \$173.2 billion at September 30, 2019. MUAH's main subsidiaries are MUFG Union Bank, N.A. and MUFG Securities Americas Inc.

MUFG Union Bank, N.A. provides a wide range of financial services to consumers, small businesses, middle-market companies, and major corporations. As of September 30, 2019, MUFG Union Bank, N.A. operated 350 branches, consisting primarily of retail banking branches in the West Coast states, along with commercial branches in Texas, Illinois, New York and Georgia. MUFG Securities Americas Inc. is a registered securities broker-dealer which engages in capital markets origination transactions, domestic and foreign debt and equities securities transactions, private placements, collateralized financings, and securities borrowing and lending transactions. MUAH is owned by MUFG Bank, Ltd. and Mitsubishi UFJ Financial Group, Inc. MUFG Bank, Ltd., a wholly owned subsidiary of Mitsubishi UFJ Financial Group, Inc., has offices in Argentina, Brazil, Chile, Colombia, Peru, Mexico, and Canada. Visit <https://www.unionbank.com> or [www.mufgamericas.com](http://www.mufgamericas.com) for more information

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<sup>1</sup> As of December 31, 2019, and according to the USD/JPY exchange rate at that date, when assets totaled ¥314.4

## About MUFG

Mitsubishi UFJ Financial Group, Inc. (MUFG) is one of the world's leading financial groups. Headquartered in Tokyo and with more than 360 years of history, MUFG has a global network with over 2,700 locations in more than 50 countries. The Group has over 180,000 employees and offers services including commercial banking, trust banking, securities, credit cards, consumer finance, asset management, and leasing. The Group aims to "be the world's most trusted financial group" through close collaboration among our operating companies and flexibly respond to all of the financial needs of our customers, serving society, and fostering shared and sustainable growth for a better world. MUFG's shares trade on the Tokyo, Nagoya, and New York stock exchanges. For more information, visit <https://www.mufg.jp/english>.

