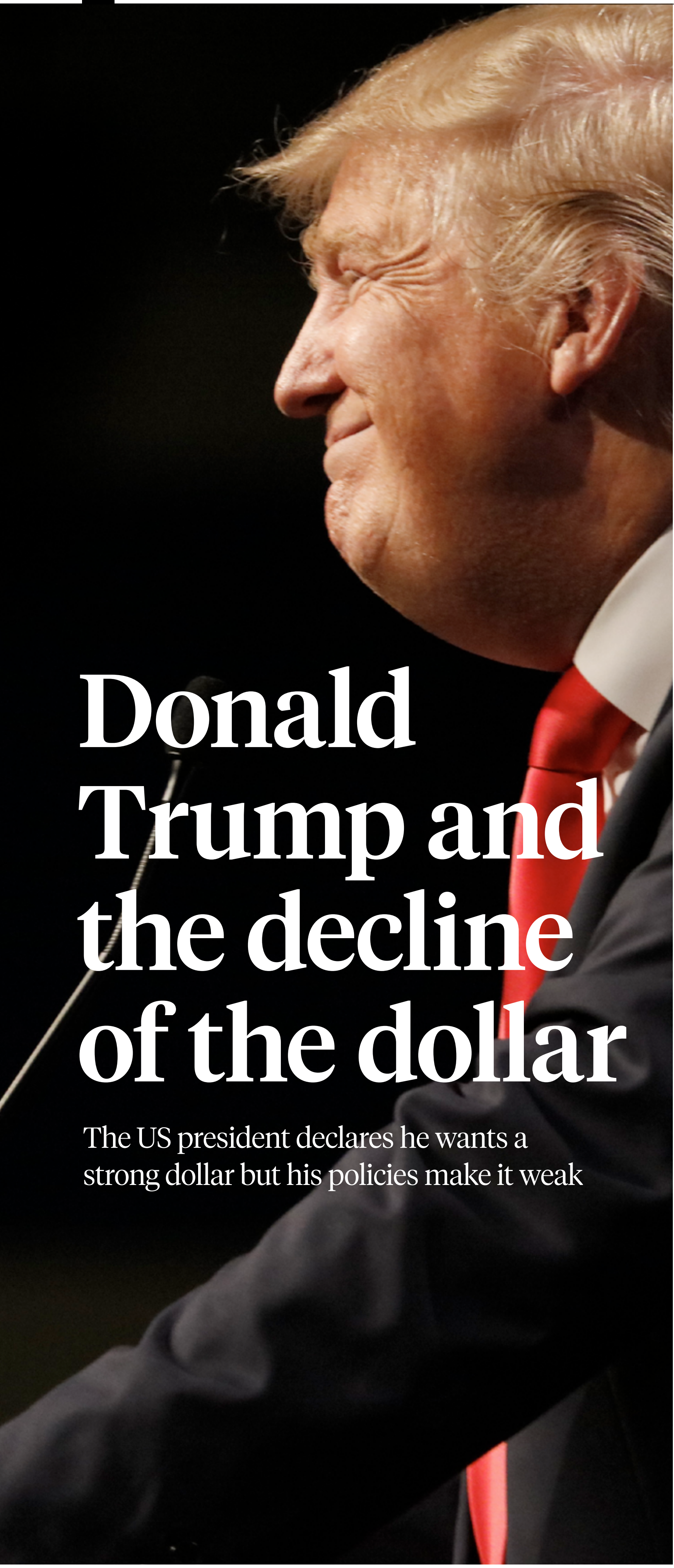


Donald Trump and the decline of the dollar

The US president declares he wants a strong dollar but his policies make it weak

NICOLA TAVENDALE

Donald Trump pledged to Make America Great Again. It hasn't worked on the dollar.

Since the real estate tycoon-turned-politician became US president on January 20, 2017, the dollar has slid consistently and as of mid-April 2018 was down 8%. In contrast, during the presidency of Barack Obama - repeatedly blasted as a weak leader by Mr Trump - the dollar rose 15%.

American presidents have a complex relationship with the dollar. Mr Trump's desire for a strong US currency tallies with many of his pre-election pledges, with a strong dollar traditionally seen as an indication of national strength, confidence in the US economy and, perhaps most importantly, a strong president.

Mr Trump told the World Economic Forum in Davos in January: "The dollar is going to get stronger and stronger and ultimately, I want to see a strong dollar."

Steven Moore, one of Trump's economic advisers during his presidential campaign, explained to the *Washington Post* in April 2017 that: "A strong dollar is a strong president and a weak dollar is a weak president." There's more to a strong dollar than a show of national virility. A stronger currency helps keep the lid on the inflationary pressure which is building slowly in the US economy. It helps maintain the dollar's status as the world's *de facto* reserve currency.

However it would be a brave currency trader who took a position based on Mr Trump's words. Measured by the US dollar index, the currency fell every quarter in 2017 and in the first quarter of 2018 - that's five in a row.

In the main, it appears to be mostly Mr Trump's own policies and opinions which have triggered this drop. The threat of global currency wars, trade disputes and raising tariffs on key imports have hurt the dollar's prospects. Not in Mr Trump's control, but

> **A strong dollar is a strong president and a weak dollar is a weak president**
>
> **Steven Moore**

Sterling and Brexit: the recovery continues

While Donald Trump is talking up his currency only to see it fall, Theresa May has been saying nothing about the pound's performance only to see it rise. However, her words and actions - particularly around Brexit – have had a notable impact.

There was a tangible sense of relief in the markets in March after the UK prime minister secured a transition deal with the EU to cushion the UK's impending exit, with some of the biggest sighs of relief coming from the Bank of England and the Financial Conduct Authority. Sterling rose as a result to its strongest level since the Brexit referendum outcome in June 2016, according to the sterling exchange rate index published by the Bank of England.

This optimism looks set to continue with more traders now going long on the pound than short, according to the CFTC's Commitments of Traders report for the week to April 10. This is a significant reversal from the losses recorded in the months following the referendum outcome. Then, the pound sank not only on the poll result but the losses deepened in following months - sterling became the world's worst-performing currency in October 2016.

Market analysts are broadly predicting that the first interest rise in a decade in November 2017 will be followed by others. "It will likely be necessary to raise interest rates to a limited degree in a gradual process, but somewhat earlier and to a somewhat greater extent than what we had thought in November," Bank of England governor Mark Carney said in February.

But a rates rise is not guaranteed, with Mr Carney also having recently poured cold water over mounting speculation around the Bank's decision. Weaker UK service PMI data published in March and moderating inflation indicate the UK economy is a long way from overheating and potentially mean that rate rises will be more measured.

According to Bloomberg, however, as of April 2018 the most accurate sterling forecasters remain bullish in their outlook – with most forecasting the pound will climb by more than eight percent in the year. With less than one year to go until the UK officially leaves the EU on March 29, 2019, there is still room for "Brexit Day" to have a significant impact on sterling in the coming months.

The dollar is also forecast to weaken over the coming year

another important factor, is that the rising interest rates elsewhere in the world will make the rates available on dollar deposits relatively less attractive - leading to further dollar outflows.

The dollar is also forecast to weaken over the coming year, according to a Reuters poll of foreign exchange strategists conducted at the start of April.

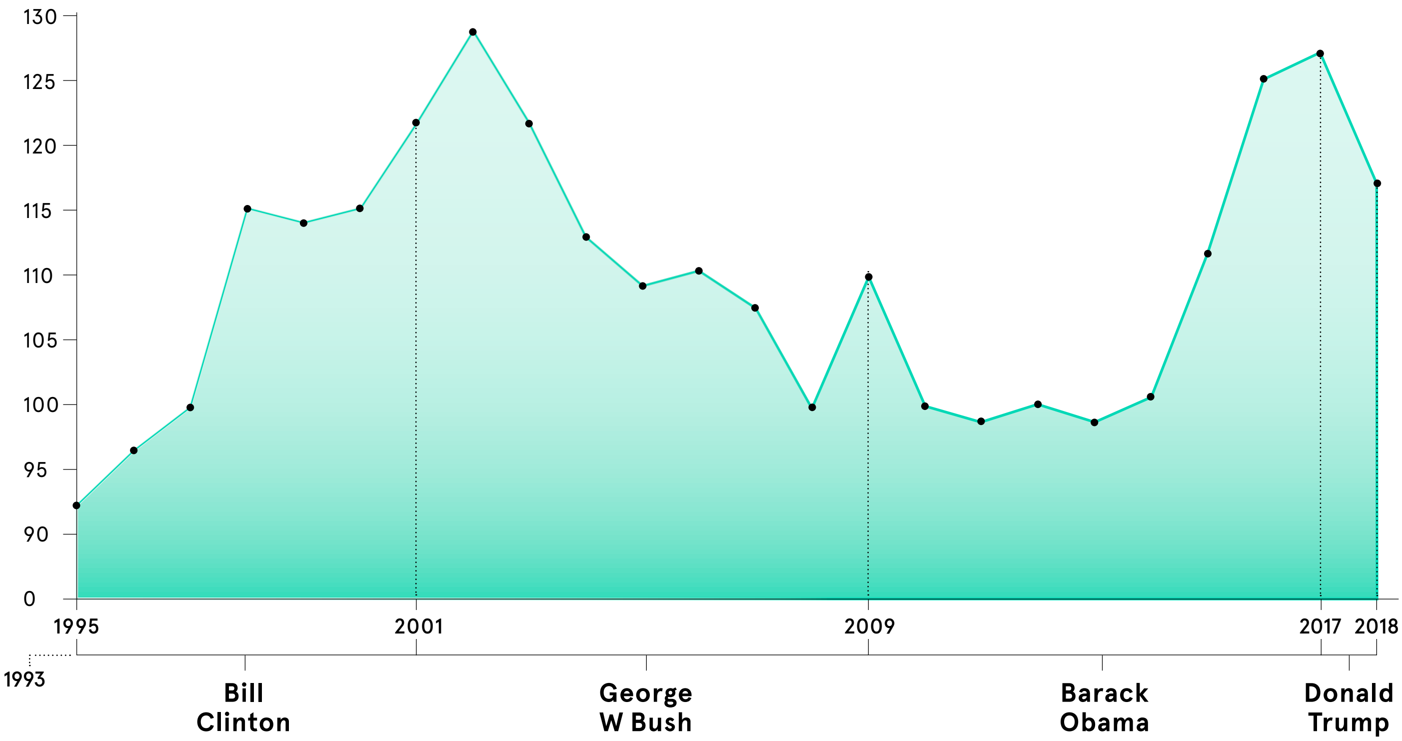
A research note from Deutsche Bank says the dollar may have to weaken further to facilitate Mr Trump's "America First" policies.

The dollar's status as the world's reserve currency, which it has enjoyed since the international Bretton Woods agreement of 1944, has allowed US consumers to "live beyond their means" via cheap foreign financing, wrote George Saravelos, Deutsche Bank's global co-head of foreign exchange research. "At the same time, however, Trump appears intent on ending this system to protect US workers," Mr Saravelos added. "The only way to reconcile this 'have your cake and eat it' approach is for the dollar to weaken."

While Mr Trump's remarks conflate the strength of the dollar with the strength of the nation, his advisers have been more nuanced. Speaking at Davos,

THE WHITE HOUSE AND THE DOLLAR

How the US currency has fared under different presidents



Broad trade-weighted US dollar index from Federal Reserve Bank of St Louis

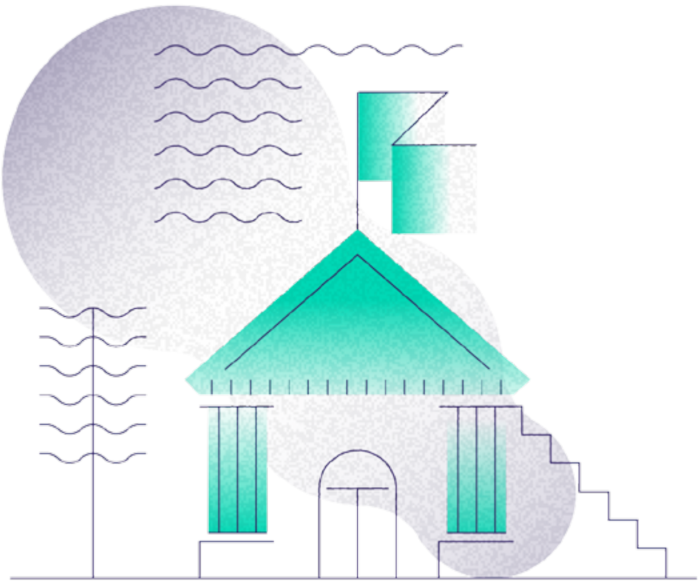
US Treasury secretary Steve Mnuchin suggested that a weaker dollar is "not a concern" and would be good for the US in terms of trade and opportunities.

And even Mr Trump himself can, at times, see past his own rhetoric. In April 2017, shortly after he took office, when the dollar index blipped up to a 13-year high, Mr Trump commented that the dollar is "getting too strong". He reconciled his remarks with his previous narrative by saying it was partially his fault because "people have confidence" in him.

One of the most-watched market numbers indicates that confidence is in short supply. According to the weekly Commitment of Traders report, published by the Commodity Futures Trading Commission, the market has now been short the dollar since mid-July, 2017. In the week to March 20, the net dollar short position was at its highest level since 2011 - a year which notably included both the eurozone crisis and a downgrade of the US sovereign debt rating.

"Relative to the start of 2017 or the end of 2016, the markets are a lot more short on the dollar now and that is something which will offer the dollar some protection on the downside," said Jane Foley, head of FX strategy at Rabobank.

Mr Trump has so far been a soft-dollar president - even if that wasn't his intention. The dollar's strength under Mr Obama was in large part due to the strength of the US economy and its ability to pull out of recession faster than most other major economies following the financial crisis. The dollar bull run which began under Obama then ran for over seven years, so a pull-back was overdue.



For the first time in over a decade, the global economy is enjoying a coordinated upswing, with many central banks actively shifting their reserve allocation away from dollars. Perhaps the dollar's weakness isn't fully an indictment of Make America Great Again, but more a reflection of the fact that campaigns to Make Europe/ Japan/etc Great Again are, finally, coming to fruition.

Former e-channels editor of Profit & Loss, **Nicola Tavendale** contributes to a range of financial publications including FIA MarketVoice and e-Forex Magazine.